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(U) CHINA: POVERTY AND INEQUALITY STILL  
CONTENTIOUS ISSUES

(C) Summary

Issues of poverty and inequality at both the micro and the macro levels remain contentious in China. Despite considerable evidence that the overall income, consumption, and living standards of Chinese peasants have improved in recent years, rural poverty persists throughout the country, raising concerns among certain leaders about the policy of letting some get rich earlier than others.

At the same time, central and provincial leaders are expressing concern about the effects on the interior of allowing China's eastern coastal areas to modernize and develop more rapidly. Fearing the intensification of inequalities between an industrial, commercial, and relatively wealthy coast and a largely agricultural, cellular, and backward interior, some leaders are calling for greater emphasis in developing the interior's minerals, manufacturing, and transportation networks.

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Rural Poverty Persists

(U) Politburo member Hu Qiaomu's recent statement that publicity on "10,000-yuan households" has misled the public about the degree of rural prosperity apparently has sparked candid reports of the continued poor living standards of most Chinese peasants. A recent People's Daily article on rural income in Heilongjiang suggests that only about 20 percent of the province's rural households are relatively well off (defined as annual per capita household income of 500 yuan--US\$175--or more); 60 percent can meet their needs

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- 2 -

for food and clothing (200-500 yuan per capita annual income); and about 20 percent remain "impoverished." Only about one rural family in 1,000 has an income of 10,000 yuan or more, but "many" families have annual incomes of less than 50 yuan. An accompanying People's Daily commentator article adds that although peasant income in the country has "universally increased" over the past few years, the per capita income of the nation as a whole is even lower than that of the relatively well-off Heilongjiang.

(C) The signed commentary says that many households lacking human resources or farm tools remain in debt. In 1984, more than 100 million yuan in agricultural loans could not be repaid, and more than 500,000 households were behind in payments. The bulk of the rural population earns just enough to survive in normal times and, according to the authors, "any natural or man-made disaster or a slight change in rural policies will affect them greatly" (emphasis added).

(U) Despite the continued poverty of many households and the marginal condition of the majority, local cadres reportedly exact irrational and unfair levies on peasants for everything from public health and welfare services to capital construction. Enthusiasm for rapid growth has led cadres to exaggerate statistics and juggle figures.

(C) On the other hand, extensive independent observations as well as reasonably hard statistics--such as the doubling of grain production in six years--suggest that, overall, peasants' income, consumption, and living standards have improved considerably in recent years. But life is improving for some much faster than it is for others, renewing concerns within the leadership about the potential social and political effects of growing disparities. The appearance of the People's Daily article may signal a resumption of the leadership debate on these issues.

(LOU) Strategy for Developing China's West Still Controversial

Party boss Hu Yaobang's July trip to Xinjiang and the recent seminar on economic development in China's western regions highlight the continued sensitivity of the leadership's strategy of exploiting the natural resources and agricultural productivity of China's heartland while concentrating financial, industrial, and technological resources on coastal economic development. Hu, associated for several years with concern that the interior not be left behind, noted that prosperity in Xinjiang "still lags a long way behind" some advanced provinces. He promised that with hard work the gap should be narrowed in 3-5 or 5-8 years, much less than the 15-20 year timeframe central planners suggest will be needed before massive development resources can be shifted to the West.

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- 3 -

Regional officials in the past have appeared dissatisfied with their low investment priority, discriminatory foreign trade policies, lack of access to and incentives for foreign investors, and slow improvement of living standards. Some, including Xinjiang party boss Wang Enmao and the Shaanxi provincial leadership, have taken their case abroad, opening offices in Hong Kong and sending out highly visible fact-finding delegations.

Central government officials and representatives of 11 interior provincial units gathered in Lanzhou in mid-August to discuss methods to assure progress in the hinterland. Mainstream economists, whose views were represented in the paper delivered by Xue Muqiao, advocated an almost colonial relationship between the coast and the interior. According to Xue, the west should emphasize development of agriculture, animal husbandry, and forestry and avoid "pursuit of industrial growth indicators only." Western industrial growth, he noted, should concentrate on development of extractive industries that can support the industrialization and export capacity of the east.

Meanwhile, coastal areas should support the development of "second" and "third line" industries in the interior by transferring their obsolete technology and equipment there and replacing it with more up-to-date models. According to Xue, the situation of giving priority to eastern China "cannot be changed in a short time" and, inasmuch as "conditions have not matured yet" for the use of foreign funds in developing the interior, "domestic cooperation is most promising."

Apparently not everyone at the conference was comfortable with this model of development. Economic Daily, one of the conference sponsors, reported that 65 percent of the Chinese for whom "food and clothing are still a problem" live in the 11 regions represented at the meeting and opined that failure to accomplish an "economic takeoff" in western China would directly affect the development of both the coastal and national economies. Veteran sociologist Fei Xiaotong was even more blunt, suggesting that "the growth of the economy cannot depend only on forestry, but industry as well." He called on western areas to end their "blind expansion of agriculture" and vigorously develop manufacturing and mining industries in order to catch up with the economic level of coastal areas.

The result appears to have been a compromise. A central finance official announced that the government will allocate 12 billion yuan (about US\$4.1 billion) to development in the west over the next several years, increasing allocations by 10 percent each year. Of the funds, 44 percent will be used for development of agriculture, animal husbandry, and forestry; 10 percent for

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- 4 -

transportation; and 9.4 percent for communications. The remaining 36.6 percent presumably will be divided among other sectors including industry, housing, education, and public health.

Prepared by Christopher M. Clarke  
632-1343

Approved by Louis G. Sarris  
632-1179

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